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C O N F I D E N T I A L SECTION 01 OF 02 VILNIUS 001186

SIPDIS

STATE FOR EUR/NB, EB/CBA, L, P (DBAME)
COMMERCE FOR ITA/ADVOCACY CENTER (PNUGENT)

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TAGS: [ECON](#) [ENRG](#) [EINV](#) [PREL](#) [PGOV](#) [LH](#)

SUBJECT: CONOCOPHILLIPS SET TO REQUEST USG ADVOCACY ON BID
WITH LUKOIL FOR REFINERY

REF: A. VILNIUS 1007

- [1](#)B. VILNIUS 781
- [1](#)C. VILNIUS 380
- [1](#)D. VILNIUS 326

Classified By: Economic Officer Scott Woodard for reasons 1.4 (b) and (d)

[1](#)1. This cable contains confidential proprietary business information. Please handle accordingly.

[1](#)2. (C) SUMMARY: ConocoPhillips Chairman and CEO James Mulva told the Ambassador October 27 that CP will likely bid with the Russian oil giant Lukoil on a controlling share of Lithuania's Mazeikiu Nafta oil refinery. Mulva said he expects former Secretary of State and former Phillips board member Lawrence Eagleburger to contact the State Department to seek USG support of the ConocoPhillips/Lukoil bid. The Ambassador noted that allegations of Lukoil's corrupt business practices and influence in Lithuanian politics soured many Lithuanians to a Lukoil-Mazeikiu Nafta deal. Mulva said that he assumed such allegations about Lukoil are factual. CP appears prepared to ask the USG to advocate formally and actively for its bid on MN. To do so will put us in the position of advocating what many here see as promoting Kremlin control of Lithuania's oil and, perhaps, its political/economic agenda. END SUMMARY.

BUYING/SELLING MAZEIKIU NAFTA: THE STATE OF PLAY

[1](#)3. (U) Wrangling over the only oil refinery in the Baltics continues, with the GOL announcing its intention to start negotiations with TNK-BP on the company's plan to bid on a controlling interest in Mazeikiu Nafta (MN). The GOL plan, at this point, is to reacquire from embattled Yukos their 53.7 percent share in MN as well as bargain-priced options the company holds on government shares and a new stock issuance. The GOL will then resell the Yukos shares and options under more favorable terms. The plan will also enable the GOL to negotiate a better shareholder and management arrangement for the country's largest industrial asset. Against opposition from the Conservative Party, President Adamkus signed legislation, November 2, enabling the government to borrow more than USD 1 billion to pave the way for the purchase/sale.

[1](#)4. (U) Presenting a possible monkey wrench in the works, a Dutch court decision, October 12, froze for 90 days the disposition of Yukos-owned shares. The freeze came in consideration of a debt recovery action that Rozneft and Yukansneftegaz initiated in the Netherlands, alleging that Yukos owes them USD 2.8 billion for crude supplies previously delivered. Although the case could conceivably result in the Dutch courts auctioning off Yukos's shares of MN to satisfy the creditors, our interlocutors (including a representative of a potential purchaser of MN) say this is unlikely, since both Rozneft and Yukansneftegaz stand to profit more from a negotiated sale of MN than from a debt recovery settlement. A quick trip to the Netherlands apparently satisfied Brazauskas that the freeze does not preclude the GOL from opening talks with potential buyers, and he publicly reiterated his intention to open negotiations with TNK-BP.

CONOCOPHILLIPS COMES A-CALLING

[1](#)5. (C) The announcement of the PM's plan to begin negotiations with TNK-BP drew other serious bidders back to Lithuania to stake their claims, including ConocoPhillips (CP). James Mulva, CP's Chairman and CEO, and Mike Fretwell, President of International Downstream Operations, met with Minister of Economy Dauksys on October 27 to discuss the company's interest in the Mazeikiu Nafta oil refinery (MN). After this meeting, Mulva and Fretwell told the Ambassador that Dauksys had assured them that the GOL had neither begun negotiations over MN with any one company, nor closed the bidding to others, despite Prime Minister Brazauskas's publicly-declared preference for TNK-BP.

16. (C) Mulva told the Ambassador that CP and Lukoil will likely participate 50-50 in a bidding entity to purchase MN. He said that Lukoil would prefer to name the "figurehead" president of this entity, while CP hopes to name the operational managers -- an arrangement that Mulva said will give CP the control over operations. He noted, however, that the GOL appears to want an American at the helm. Mulva said that CP will not consider making a solo bid for MN, and he doubts that Lukoil will attempt to do so, either.

OMINOUS RUSSIAN VIEWS OF CP'S COMPETITION

17. (C) Mulva, requesting business confidentiality, said that, in an October 25 conversation in Houston, Russian Industry and Energy Minister Viktor Khristenko told him that Russia does not view TNK-BP as a "Russian company." Khristenko further implied that the Kremlin may not be happy if TNK-BP buys MN. Khristenko reportedly added that if Lithuania does not "handle things properly," Russian oil could easily bypass Lithuania, and Lithuania would become "a spinster without a dowry."

18. (C) The Ambassador told Mulva that many Lithuanians are aghast at the idea of Lukoil in control of the country's largest industrial asset, and he suggested that this aversion may hamper a CP-Lukoil bid. The Ambassador noted that persistent rumors of Lukoil's attempts to bribe, blackmail, and engage in all manner of unseemly and illicit political intrigue in Lithuania go back at least a decade. Mulva reflected on the Ambassador's remarks, and then quietly acknowledged that the rumors were probably well founded. Mulva underlined the fact that Lukoil is now a privately held company. In his opinion, nonetheless, Lukoil's good relationship with the Russian Government is a selling point, because it will ensure a CP-Lukoil-owned MN's ability to secure supplies of crude.

CP SEEKING USG ADVOCACY

19. (C) Mulva told the Ambassador that he had asked former Secretary of State Lawrence Eagleburger (a member of the

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Board of Directors of Phillips before it merged with Conoco) for help in securing USG support CP's bid, and that Amb. Eagleburger indicated that he will call Undersecretary Burns. (Note: Lithuania's Minister of Economy, briefing the press after his meeting with Mulva, said CP enjoys the support of President Bush and the U.S. Government. In response to press inquiries, we made clear that the USG at this time is not officially supporting any company's bid for MN. End note.) The Ambassador explained the role of the Department of Commerce in ensuring that the USG advocates fairly on behalf of U.S. businesses. He advised Mulva that CP should apply to the Department of Commerce's Advocacy Center to set the process in motion.

110. (C) E-mails we received from CP employees strongly suggest that Mulva visited Lithuania at Lukoil's request. These employees also complained that Lukoil tried to add several additional meetings with GOL officials onto the schedules of Mulva and Fretwell the day before the meetings were to occur.

COMMENT

11. (C) We emphasized in ref A that we risk our much broader relationship with Lithuania if we advocate strongly on behalf of CP-Lukoil. As long as CP and Lukoil pursue this bid together, even our Lithuanian friends would see our advocacy on behalf of CP as advocacy for Lukoil, a company that many here see as a Kremlin tool that has mucked around in domestic politics for a decade. Mulva's acknowledgement of Lukoil's likely involvement in dirty deeds in Lithuania inspires little confidence in transparency under a Lukoil-CP operation. Given our broader interests here, we recommend not assuming a direct role in the competition for Mazeikiu Nafta, even if CP-Lukoil is the only "American" contestant.
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